

## Message Text

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ACTION EA-14

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C O N F I D E N T I A L HONG KONG 4605

PASS COMMERCE-BEWT

E.O. 11652: GDS

TAGS: ETRD ETRN CH US

SUBJECT: POTENTIAL AIR TRAFFIC CONTROL PROJECT FOR PRC

SUMMARY: RAYTHEON HAS BEEN ADVISED BY MACHIMPEX REPRESENTATIVE HERE TO SUBMIT HYPOTHETICAL PLANS FOR A MODERN ATC SYSTEM AS WELL AS A MICROWAVE NETWORK. END SUMMARY.

BACKGROUND:

1. WE HAVE NOT SEEN ANY STEPS BY CHINA TO IMPROVE HER ATC CAPABILITIES NOTWITHSTANDING HER RAPID AVIATION DEVELOPMENTS INCLUDING AN EXPANDING FLEET OF 707'S TRIDENTS AND IL-625'S, MORE FOREIGN INTERNATIONAL CARRIERS SERVING CHINA, AND NEW AIRPORT PASSENGER AND BAGGAGE HANDLING FACILITIES. U.S. COMPANIES LIKE RAYTHEON, TEXAS INSTRUMENTS AND ITT, ALL WORLD-RENOINED FOR THEIR LEADERSHIP IN ATC SYSTEMS AND EQUIPMENT, HAVE RECEIVED NO REPLIES TO THEIR VARIOUS APPROACHES TO THE PRC. SIMILARLY, OFFICIAL INVITATIONS FROM THE FAA AND THE AMERICAN INSTITUTE OF AERONAUTICS AND ASTRONAUTICS (AIAA) OFFERING TO HOST PRC AVIATION DELEGATIONS TO THE US HAVE BROUGHT NO POSITIVE RESPONSE.

2. WE HAVE WONDERED IF THE PRC WOULD ONLY CONSIDER WESTERN EUROPEAN SOURCES, POSSIBLY FOR ITS OWN MILITARY

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SECURITY REASONS OR POSSIBLY AT THE INSTIGATION OF OUR

PRIMARY COMPETITORS IN THIS FIELD--THE UK AND FRANCE. DRAWING UPON OUR KNOWLEDGE OF HOW THESE COMPETITORS HAVE OPERATED IN OTHER COUNTRIES, PERHAPS WE MIGHT LEARN THAT THEY HAD SUCCEEDED IN INCLUDING CHINA'S ATC BUSINESS AS PART OF A LARGE PACKAGE DEAL. FOR EXAMPLE, A UK DEAL WITH THE PRC COVERING TRIDENTS, PLANTS TO MANUFACTURE TRIDENT ENGINES, AND ATC SYSTEMS AND EQUIPMENT WOULD DISAPPOINT BUT NOT SURPRISE US. FROM INTELLIGENCE REPORTS LAST YEAR, WE DO KNOW THAT A PRC DELEGATION IN WESTERN EUROPE DID INCLUDE ATC INSTALLATIONS IN THEIR ITINERARY THERE.

3. HOWEVER, NOTWITHSTANDING THIS LACK OF CHINESE RESPONSE, OUR ATC LEADERSHIP AND THE LARGE BUSINESS POTENTIAL AT STAKE FOR WHOMEVER GETS IN ON THE GROUND FLOOR HAVE MOTIVATED US TO CONTINUE ENCOURAGING US REPRESENTATIVES TO SEEK CONSIDERATION BY MACHIMPEX AND/OR CAAC. ACCORDINGLY, WHEN RAYTHEON'S FAR EAST REPRESENTATIVE (TED WAY) CALLED ON US LAST WEEK, WE REVIEWED THIS ENTIRE PICTURE WITH HIM INCLUDING ALL OF HIS COMPANY'S PRIOR UNSUCCESSFUL EFFORTS. WHILE IN HONG KONG, WE URGED HIM TO RENEW HIS INQUIRIES WITH THE MACHIMPEX REPRESENTATIVES AT THE CHINA RESOURCES COMPANY AND ALSO TRY ADDITIONAL COMMUNICATIONS WITH MACHIMPEX AND CAAC IN PEKING.

NEW ENCOURAGEMENT:

4. PERHAPS RAYTHEON'S PERSISTENCE MAY BE REWARDED. ACCORDING TO MR. WAY, THE MACHIMPEX REPRESENTATIVE IN CRC DENIED THAT US COMPANIES WERE BEING EXCLUDED FROM CONSIDERATION OR THAT THE UK OR ANY OTHER COUNTRY WAS RECEIVING PREFERENTIAL CONSIDERATION. INSTEAD, HE URGED RAYTHEON TO PERSEVERE IN ITS EFFORTS BUT TO ALTER THEIR APPROACH. INSTEAD OF MERELY FORWARDING MORE COMPANY LITERATURE ON THEIR ATC SYSTEMS AND EQUIPMENT (RAYTHEON HAD PREPARED A SPECIAL DESCRIPTIVE BOOKLET IN CHINESE), RAYTHEON WAS ADVISED THAT IT SHOULD DRAW UPON ONE OF ITS SYSTEMS INSTALLATIONS ELSEWHERE TO SUBMIT A COMPLETELY MODERN BUT HYPOTHETICAL ATC SYSTEM FOR ONE OF CHINA'S LEADING AIRPORTS, SUCH AS SHANGHAI. (ACCORDING

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TO WAY, THE INITIAL PRESENTATION WILL PROBABLY BE AN IDEAL SYSTEM WITHOUT REFERENCE TO EXISTING CAPABILITIES AND BASED ON ASSUMED CONDITIONS OF TERRAIN, ETC. FORTUNATELY, HAVING BEEN A PILOT IN THE PRE-PRC GOVERNMENT AIRLINE SERVICE, WAY IS PERSONALLY FAMILIAR WITH THE SHANGHAI AIRPORT AND ITS SURROUNDING TERRAIN.)

5. SIMILARLY, IN RESPONSE TO RAYTHEON'S MICROWAVE

SYSTEMS POTENTIALS, THE CRC REPRESENTATIVE ALSO RECOMMENDED THAT RAYTHEON SUBMIT A MODERN HYPOTHETICAL MICROWAVE PLAN COVERING ONE OF CHINA'S LARGER REGIONS. (HERE AGAIN, RAYTHEON WILL PROBABLY PLAN AN IDEAL SYSTEM BASED ON ASSUMED CONDITIONS, TERRAIN, ETC.)  
COMMENT:

6. ALTHOUGH RAYTHEON STILL HAS A LONG WAY TO GO TOWARD ANY HARD NEGOTIATIONS IN PEKING, THIS KIND OF ADVICE AND ENCOURAGEMENT IS A BIG STEP FORWARD FROM THAT OF EARLIER "NO RESPONSE" OR "INDIFFERENCE" TO THEIR APPROACHES. IT IS ALSO POSSIBLE THAT RAYTHEON'S PRESENTATIONS MAY TURN OUT TO BE PART OF THE "MILKING" PROCESS WHICH MANY COMPANIES GO THROUGH, BUT THIS KIND OF RISK IS INHERENT IN TRYING TO DO BUSINESS WITH THE PRC. AT LEAST, THE MACHIMPEX OFFICIAL MADE NO EFFORT TO DENY PRC'S INTEREST IN MORE MODERN ATC SYSTEMS AND EQUIPMENT.

7. BECAUSE OF OUR CLOSE AND LONG-STANDING WORKING RELATIONSHIP WITH RAYTHEON, WE HAVE BEEN PRIVY TO MUCH OF THEIR DETAILED BUSINESS DISCUSSIONS. THUS, ANY EFFORT TO CAPITALIZE ON THE AFOREMENTIONED INFORMATION FOR THE BENEFIT OF OTHER US COMPANIES WOULD JEOPARDIZE OUR FUTURE WORKING RELATIONSHIP WITH RAYTHEON AND ALSO ADVERSELY AFFECT OUR CONFIDENTIAL RELATIONSHIP WITH OTHER COMPANIES. ACCORDINGLY, WE REQUEST WASHINGTON'S COOPERATION IN RESTRICTING THE AFOREMENTIONED PROGRESS REPORT ON RAYTHEON TO USG OFFICIALS ONLY.  
CROSS

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